

The federal minimum wage

[Business](#), [Work](#)



The federal minimum wage is a hotly debated topic and a main point that invariably separates the beliefs of the Democratic Party platform from the Republican Party platform. Today's federal minimum wage is \$7.25 (Jamieson, 2018). The federal minimum wage is determined by the FLSA (Fair Labor Standards Act), and has not been adjusted from a \$7.25 hourly wage since July of 2009.

Because of the lack of advancement, many states have developed their own methods for determining minimum wage, but federally, any addition or subtraction must first pass directly through the FLSA (United States Department of Labor, 2018). States determine their minimum wage by analyzing their costs of living which differs depending on location, and analyzing their GDP (gross domestic product) per capita (Stoll, 2014).

For example, the minimum wage in Montana as of January 1, 2018 is \$8.30 per hour whereas in Massachusetts, where the cost of living is greatly increased, the hourly minimum wage is \$11.00. There are 29 states that have an increased minimum wage adjusted specifically to the state's cost of living.

The wages in these states range from \$7.50 to \$12.50 per hour (United States Department of Labor, 2018). Even though many states already increase their minimum wage many people living in the United States claim that the federal minimum wage is entirely too low.

The preponderance of evidence suggests that increasing the federal minimum wage would have little effect on poverty and would in time reduce job security and increase unemployment. Other factors that could potentially

be affected by an increase in the federal minimum wage include consumer prices, suppressed wages for higher skilled workers, and an increase in outsourcing.

Prior to the 2016 election the Democratic Party platform was updated and members decided to adopt a \$15 per hour minimum wage. They claim that \$15 an hour is the only way that American workers can survive and support their families. The push towards an increase in federal minimum wage began in New York City four years ago when a group of fast-foodworkers went on strike.

The movement caught the attention of many popular political figures and eventually the members grouped together to form the #fightfor15 movement (Seitz-Wald, 2016). Experts that claim the federal minimum wage is not sufficient to support a family and live comfortably argue that an increase to the federal minimum wage would provide an "important lift" to over 2.2 million people in the United States (Lu, 2017).

Usually these experts begin their arguments stating that the federal minimum wage real amounts have eroded nearly 25% since 1968 (Scott & Perez, 2017).

The federal minimum wage amounts to only \$15,080 annually for full time employment. \$15,080 is such a low annual income, experts predict that it is one of the main reasons why living standards have declined nationwide. This number may also contribute to the decline in economic stability, and the shrinking middle class (Lu, 2017).

On a national level, supporters of the minimum wage increase provide data that proves the federal minimum wage should be at least \$12.00 per hour based on the United States' GDP. A poll taken by The Economist reports that over 1.3 million people work at minimum wage, and nearly 1.7 million work below it, thus meaning these employees are not paid hourly rather are tipped employees (Komlos, 2015).

Many people would associate a push for minimum wage strictly with larger cities and areas where the cost of living is significantly above average, however even in Montana, a republican dominated state, many citizens still are pushing for a higher minimum wage. Swartz, a home care worker residing in Great Falls, Montana claims that the amount she makes working for three caregiving agencies is simply not enough to support herself comfortably.

The three agencies all pay over both the federal minimum wage and Montana's state minimum wage but due to the inconsistency of job hours she claims that making ends meet every month can be a difficult task. Swartz claims that typically some parts of low-wage workers are "overlooked". People who do not make low wages and are not forced to work 70+ hour work weeks do not understand the struggle. Swartz also states that "Home-care workers, who help people stay in their homes and live with dignity, deserve a \$15-an-hour minimum wage."

Attached to Swartz's article is a report published by The Alliance for a Just Society, which claims that the living wage in Montana is \$14.36 an hour for a single person with no dependents. Montana determines their state

minimum wage using the Consumer Price Index, and updates it annually according to the index. Still however, 3,329 Montana employees earn minimum wage which makes up about 1.2% of the entire workforce.

Over half of Montana's minimum wage workers are older than 25 and over 60% are women (Jay, 2016). Beginning January 1, 2018 Montana again raised its minimum wage standard to \$8.30 per hour. Governor Steve Bullock addressed the issue in an email that read "People who work full time for a living shouldn't be living in poverty."

This modest increase in minimum wage means more Montana workers will have a little extra money in their pockets," The workers who Bullock may have been addressing include workers in the accommodations and food industry and also the retail trade industry who are recurrently the largest number of workers that receive minimum wage (Tribune Capital Bureau, 2017).

On the contrary, many experts counterclaim that an increase in minimum wage is not the extreme "poverty tool" that the Democratic Party is hoping for. In fact, one of the biggest arguments against raising minimum wage is the idea of individual states already taking care of the low wage issue.

As stated previously Montana, is one of 29 states that already adopted a minimum wage that is higher than the federal minimum wage, and many experts believe that if states were to adjust their incomes according to their cost of living, etc. that would be better fitting rather than adjusting the entire nation's minimum wage. Dr. Simon Johnson, MIT Sloan expert, claims that raising the federal minimum wage would actually have unintended

consequences, in the sense of reducing hiring and potentially increasing unemployment.

He states " It is unlikely that states with lower living costs would be able to support a \$15 per hour minimum wage increase, while keeping hiring processes and current employment rates the same." He proposes a gradual, stepwise increase to the minimum wage that would occur over time.

A drastic increase to \$15 per hour would be too abrupt and would have career-changing consequences. A study completed by Harvard's Economic Department points out that most minimum wage earners are second or third job holders in households with other income sources. This could include teenagers, summer employees, etc.

Another group that comes to mind when thinking about minimum wage workers is retirees who already receive financial benefits from savings and social security. It is unlikely that an increase in minimum wage would truly benefit the nation, simply because some people working for minimum wage are not attempting to support dependents or themselves entirely.

Usually, they are people who are looking for a little extra money rather than needing money to pay for utilities, a house, a car, etc. An even more concerning drawback of raising minimum wage is the elimination of jobs. If the United States government were to demand businesses to pay entry-level workers \$15 an hour there would be a huge decrease in job security and job availability.

Because, most businesses do not pay entry-level workers at this wage, if they were required to do so, they may attempt to find other means of labor including robots, computers, or other advanced technology. In fact, the Nonpartisan Congressional Budget Office estimated that former President Obama's proposed \$10.10 minimum wage, once fully implemented and in use, " would reduce total employment by about 500,000 workers." Below is a political cartoon that shows the adverse effects of raising the current minimum wage.

Although, many low-wage workers support and advocate for the idea of earning a \$15 per hour wage, its effects could actually be deteriorating. Statistics show that raising the federal minimum wage to \$15.00 per hour the United States risks eliminating roughly 550,000 part-time jobs and even if the minimum wage was raised to only \$9.50 per hour nearly 1.3 million jobs could be lost.

Previously, the United States has raised the minimum wage from \$5.15 to \$7.25, and adversely only 15 percent of the workers who were expected to gain from it lived in poor households. If the minimum wage today were to be raised to \$9.50 per hour, only 11 percent of current minimum wage workers living in poverty would gain from this increase.

In 2012, a study completed by the Wilson Review claims that both state and federal minimum wage increases between 2003 and 2007 had no effect on state poverty rates. Thus, proving the idea that increasing minimum wage does not provide a tool for lowering poverty levels. David Neumark and

William Wascher performed over 100 minimum wage studies and found that about two-thirds of the studies had negative effects on unemployment.

Thus, meaning that with an increase in minimum wage business owners and corporations would be forced to decrease their labor force and potentially cut long-time in employees in order to compensate for the wage increase. Half of the country's workforce is employed by small businesses. Raising the federal minimum wage is often cast largely as a necessity to ensure that many workers are able to earn a decent living, but in reality it's a complex issue.

An example of this complexity has occurred in Oakland California in March of 2015 after they increased their statewide minimum wage by 36%, from \$9.00 to \$12.25 per hour. The effects are varying but some restaurants have raised their food pricing by nearly 20%, or adding a mandatory service charge and doing away with voluntary tips.

The issue, business owners recognize and are working hard to resolve is finding the balance between paying a decent wage and keeping customers rather than driving them away. Some people claim that aside from the direct cost of doing business from salaries, they are also paying more for goods and services in their own communities.

They question whether or not a higher wage will raise the cost of living for all employees, including those who currently earn a high-wage. Critics who are against raising the minimum wage also claim that if every entry-level worker was paid \$15 an hour to begin with, many would lose incentive to get an education and move up to a higher-paying jobs.

Ira Stoll, a minimum wage evaluator, states that " The lower the minimum wage, the more eager a minimum wage worker would be to enroll in a community college course at night, improve his/her skills, and apply for a higher-paying job." Stoll also states that, " Making the entry-level jobs higher paying increases the risk that workers will get stuck in them for longer instead of moving on to something more rewarding.

" Another point that many supporters fail to bring about is the idea of freedom of contract. This freedom is not directly protected by the constitution, but it is seen as a " natural right" and should be exercised. President Kennedy once said " The rights of man come not from the generosity of the state but from the hand of God.

" Thus, meaning that if two free people want to enter into a voluntary contract or agreement that does not infringe on anyone else's rights or wellbeing the government has no right to step in and stop the deal that is being made. Experts use the idea of freedom of contract to prove that the government should not be involved in every contract made between two people.

If a man wants to work for another for \$5 an hour, and the other man wants to hire him and pay him \$5 an hour then the government should have no authority to infringe on this deal. Raising the federal minimum wage would also affect welfare spending and could potentially increase taxes.

Raising the federal minimum wage puts money into the pockets of the working poor people, but this occurs at the expense of business owners. By

raising the minimum wage, politicians are taking the roundabout approach of minimum wage increase, rather than building actual political support for these policies.

A report published by the Cato Institute claims that evidence shows minimum wage increase "disproportionately hurt the people they're supposed to help." In this article the Institute cites a 2012 analysis of the New York State minimum wage increase from \$5.15 to \$6.75 per hour that found a "20.2 to 21.8 percent reduction in the employment of younger, less-educated individuals.

"They also note that since 1995, eight studies have examined the income and poverty effects of minimum wage increases, and all but one of those studies have found that past minimum wage hikes had no effect on poverty. One of the largest concerns expert's share about a federal minimum wage increase is the impact it would entail on consumer prices.

Basically, to raise minimum wage means to pay more people more money which has to be supplied from somewhere. Experts against the increase claim that the extra money will come from increased consumer prices.

The 2012 Wilson Review notes: "A 2004 review of more than 20 minimum wage studies looking at price effects found that a 10 percent increase in the U. S. minimum wage raises food prices by up to 4 percent." To back up this idea a report posted by the Federal Reserve Bank of Chicago states that restaurant prices increase in response to minimum wage increases.

The federal minimum wage is at a lower real value than it once was, but in order to change it law makers are going to have to look deeper into the problem rather than attempting to change the outcome quickly by increasing the minimum wage in all states to \$15.00 hourly. Our country is unique in the nature that each state is able to make and regulate their own minimum wage and this matter is better dealt with inside certain states than from the federal government as a whole.

There is most definitely a need in the United States to implement a method to decrease the rising poverty level, but this method should not be an increase in federal minimum wage because this method is directly related to rising prices, higher unemployment, job loss, and lack of job security.

Small businesses, as stated previously, make up approximately 50% of the nation's workforce and if the government were to demand these businesses to pay their starting employees \$12 or more, the businesses would be forced to either hire less people, lay off long term workers, or even more devastating, shutdown.

This method proves ineffective in decreasing the families living underneath the poverty line and instead harms those workers who are higher-skilled and higher-paid.